Report on the

J. F. Drake State Community and Technical College

Huntsville, Alabama

October 1, 2020 through September 30, 2021

Filed: June 24, 2022

Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

22-306

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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on J. F. Drake State Community and Technical College, Huntsville, Alabama, for the period October 1, 2020 through September 30, 2021, by Examiners Tiffany Mason, Maddie McGuire and Rayley Simmons. I, Tiffany Mason, served as Examiner-in-Charge on the engagement, and under the authority of the ***Code of Alabama 1975***, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Tiffany Q. Mason

Tiffany Mason
Examiner of Public Accounts

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SUMMARY

J. F. Drake State Community and Technical College
October 1, 2020 through September 30, 2021

J. F. Drake State Community and Technical College (the "College") is a comprehensive community and technical college that provides university-transfer and career technical education through academic and occupational training, from basic education through two-year academic and technical programs that can lead to Associate in Arts and Associate in Science general education transfer degrees. Certificates and/or Associate in Applied Science degrees are offered in the following areas: Advanced Manufacturing with concentrations in Electrical, Engineering Graphics, Machine Tool, and Welding; Business Administration; Automotive Technology; Salon and Spa Management; Culinary Arts/Hospitality Services; Electrical Engineering Technology; Computer Information Systems Technology; Heating and Air Conditioning Technology; Medical Assistant; and Nursing.

J. F. Drake State Community and Technical College is a publicly supported institution in the Alabama Community College System. The College is under the direction and control of the Alabama Community College System Board of Trustees through the Chancellor of the Alabama Community College System Office.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the College complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5A-12.

An unmodified opinion was issued on the basic financial statements, which means the College's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2021.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. Patricia Sims, President; Akeem Alexander, Executive Director of Fiscal Affairs and Administrative Services; and Jimmy Baker, Chancellor of the Alabama Community College System. The following individuals attended the exit conference: Dr. Patricia Sims, President; Akeem Alexander, Executive Director of Fiscal Affairs and Administrative Services; and Katrina Harris, Chief Accountant. The following individuals from the Alabama Community College System attended virtually: Sara Calhoun, Chief Financial Officer; Billy Merrill, Deputy Chief Financial Officer; Julia Dennis, Accountant; Erika Doody Financial Compliance Accountant; and Donna Boutwell, Director of Compliance. Representing the Department of Examiners of Public Accounts were: Mistie Beam, Audit Manager; and Tiffany Mason, Examiner.

Independent Auditor's Report

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

Report on the Financial Statements

We have audited the accompanying financial statements of J. F. Drake State Community and Technical College, a component unit of the State of Alabama, as of and for the year ended September 30, 2021, and related notes to the financial statements which collectively comprise J. F. Drake State Community and Technical College's basic financial statements as listed in the table of contents as Exhibits 1 through 3.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of J. F. Drake State Community and Technical College, as of September 30, 2021, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the College's Proportionate Share of the Collective Net Pension Liability, the Schedule of the College's Contributions – Pension, the Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability and the Schedule of the College's Contributions – Other Postemployment Benefits (OPEB) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise J. F. Drake State Community and Technical College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8) is presented for the purposes of additional analysis as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 10, 2022, on our consideration of J. F. Drake State Community and Technical College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering J. F. Drake State Community and Technical College's internal control over financial reporting and compliance.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 10, 2022

Management's Discussion and Analysis (Required Supplementary Information)

Overview of the Financial Statements and Financial Analysis

J. F. Drake State Community & Technical College has been committed to fulfill the diverse needs of its community by offering flexible and affordable university-transfer and technical degrees, certificates, adult and continuing education, and customized workforce training. Because of its location in the high-tech city of Huntsville, which is called the space and rocket capital of America, the College is dedicated to the teaching and advancement of the highest caliber of technical skills through state-of-the-art facilities and equipment. The College seeks to produce an effective participatory citizenship with economic potential as well as civic and social commitment. To this end, the College seeks to maintain a sound fiscal foundation in support of its mission in addition to providing responsible stewardship of public funds in compliance with state law.

Three financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flow. The following financial statements and analysis provide an overview of the financial activities for the year ending September 30, 2021.

The fiscal philosophy of the administration is to use resources to continually improve in all areas in alignment with the mission of the College while providing for a reasonable reserve of funds. These financial statements reflect the realization of that philosophy for the 2021 fiscal year.

Statement of Net Position

The Statement of Net Position presents the total assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position of the College as of the end of the fiscal year. The Statement of Net Position presents data concerning Assets (current and noncurrent), Deferred Outflow of Resources, Liabilities (current and noncurrent), Deferred Inflow of Resources, and Net Position (assets plus deferred outflow of resources) minus (liabilities plus deferred inflow of resources). The difference between current and noncurrent assets is detailed in the financial statement disclosures.

Net position is divided into three major categories: Net Investment in Capital Assets, Restricted Assets, and Unrestricted Assets.

- Net investment in capital assets include equity in property, plant, and equipment.
- Restricted net position is divided into two categories: expendable and nonexpendable. Restricted net position is available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is only available for investment purposes.
- Unrestricted net position is available to the College in fulfilling its mission to provide education and services to the community.

A condensed Statement of Net Position at September 30, 2021, and 2020, is presented below.

Condensed Statement of Net Position

	2021	2020	Increase (Decrease)	Percent Change
Assets:				
Current	$8,883,179	$7,997,694	$885,485	11.0
Noncurrent	9,097,926	7,614,997	1,482,929	19.0
Total Assets	17,981,105	15,612,691	2,368,414	15.0
Deferred Outflows of Resources	$3,490,633	1,359,824	2,130,809	157.0
Liabilities:				
Current	1,769,372	2,451,242	(671,870)	(27.0)
Noncurrent	11,731,685	9,150,431	2,581,254	28.0
Total Liabilities	13,501,057	11,601,673	1,899,384	16.0
Deferred Inflows of Resources	3,413,224	4,414,810	(1,001,586)	(23.0)
Net Position:				
Net Investment in Capital Assets	8,648,925	6,951,996	1,696,929	24.0
Restricted	0	0	0	0
Unrestricted	(4,091,468)	(5,995,964)	1,904,496	32.0
Total Net Position	$4,557,457	$956,032	$3,601,425	377.0

During fiscal year 2021, total assets increased $2,368,414. This amount represents a 15% increase and is mainly due to a $2.1 million increase in capital assets which will be depreciated over its useful life annually. In addition, as required by Governmental Accounting Standards Board (GASB) Statement Number 68, $2,209,802 has been recorded for Pensions in the Deferred Outflow of Resources section. Also, as required by GASB Statement Number 75, $1,269,997 has been recorded for Other Postemployment Benefits (OPEB) in the Deferred Outflow of Resources section. These combined represent a $2,136,225 increase for this section.

Total liabilities increased by $1,899,384 for fiscal year 2021. This is mainly due to an increase in both Net Pension Liability and Net OPEB Liability. In addition, as required by GASB Statement Number 68, $825,000 has been recorded for Pensions and $2,588,224 has been recorded, as required by GASB Statement Number 75 for Other Postemployment Benefits (OPEB), both in the Deferred Inflow of Resources section. This represents a $1,001,586 decrease for Deferred Inflow of Resources. The combination of the increase in total assets of $2,368,414, the increase in deferred outflow of resources of $2,130,809, the increase in total liabilities of $1,899,384, and the decrease in deferred inflow of resources of $1,001,586 yields an increase in total net position of $3,601,425.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the statement is to present revenues, both operating and nonoperating, and the expenses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution. Operating revenues are received for providing instruction and other instructional services to the various constituencies of the College. Operating expenses are those expenses paid in return for the operating revenues and to carry out the College's mission. Non-operating revenues are revenues received for services that the College does not provide. For example, state appropriations are non-operating because they are provided by the Alabama State Legislature to the College without the legislature directly receiving commensurate services for those revenues.

A condensed Statement of Revenues, Expenses and Changes in Net Position for the 2021 and 2020 fiscal years is presented below.

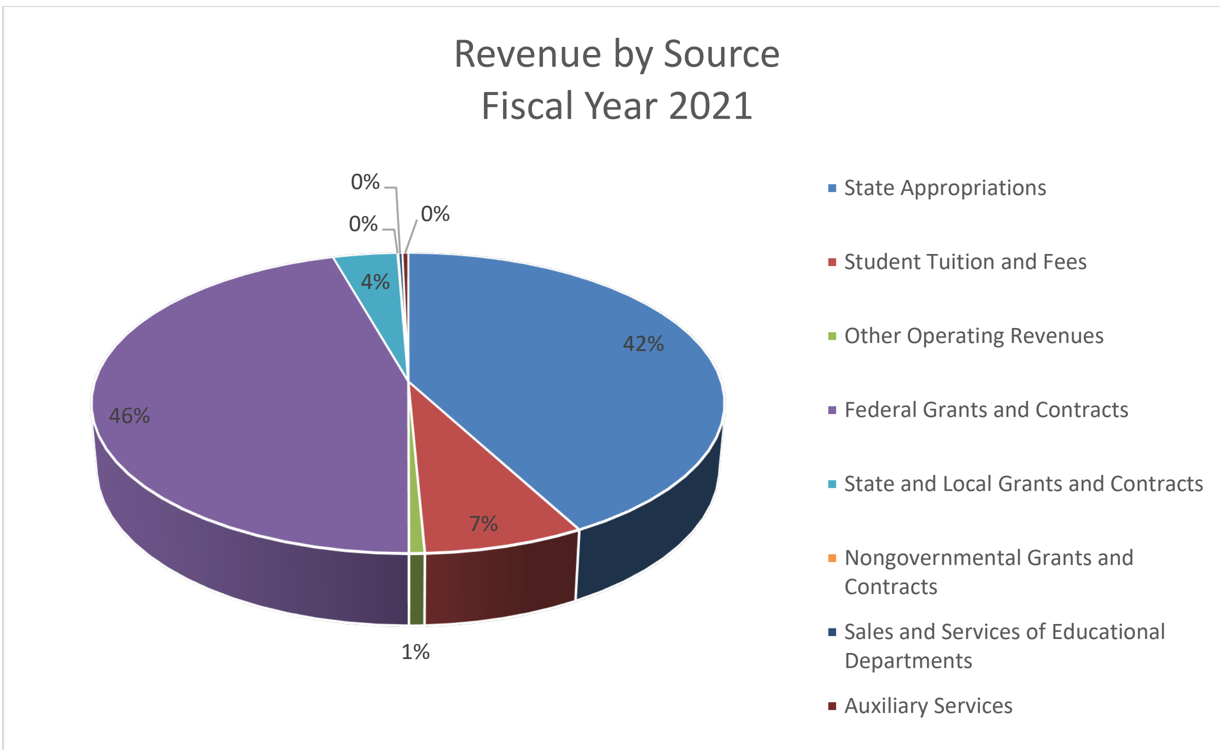
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2021	2020	Increase (Decrease)	Percent Change
Operating Revenues	$4,201,315	$4,805,645	$(604,330)	(12.6)
Operating Expenses	12,584,358	10,684,254	1,900,104	17.8
Operating Loss	(8,383,043)	(5,878,609)	(2,504,434)	42.6
Non-operating Revenues and Expenses	11,952,690	8,578,604	3,374,086	39.3
Income before other Revenues and Expenses	3,569,647	2,699,995	869,652	32.2
Other Revenues and Expenses	0	0	0	0.0
Increase (Decrease) in Net Position	3,569,647	2,699,995	869,652	32.2
Net Position, Beginning of Year	956,032	(1,448,973)	2,405,005	166.0
Restatements	31,778	(294,990)	326,768	110.8
Net Position, End of Year	$4,557,457	$956,032	$3,601,425	376.7

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of $3,601,425. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are shown in Exhibit 1.

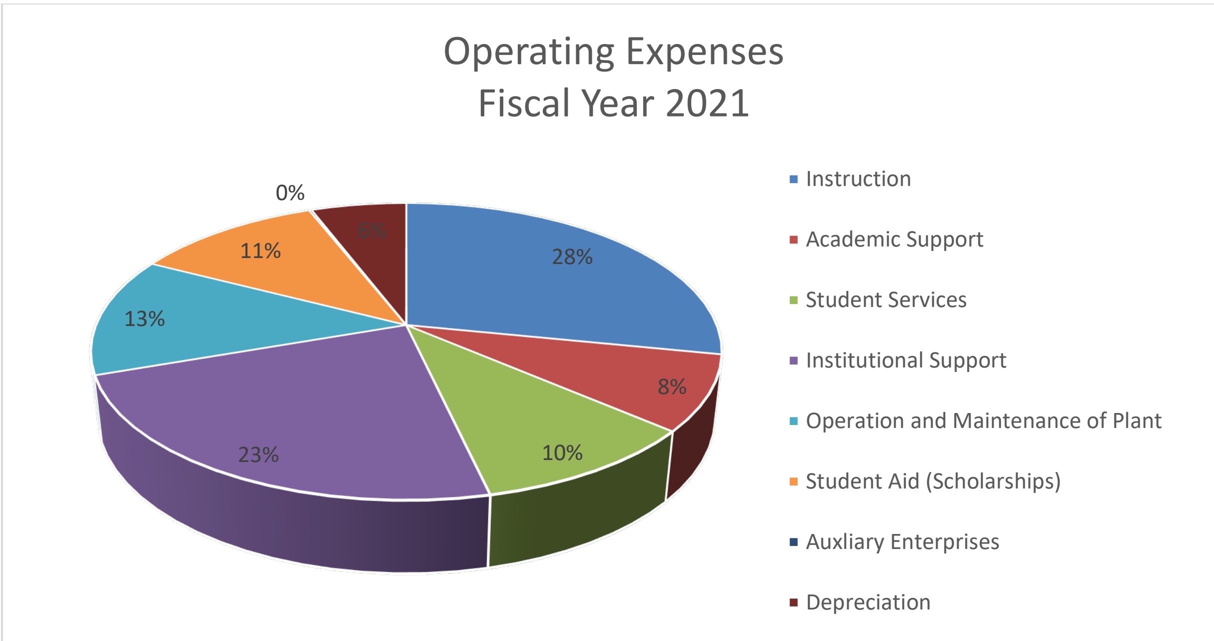
The chart in Exhibit 1 displays the revenue by type and the relationship of types of revenue with one another. Federal grants and contracts and state appropriations represent the largest types of revenues at forty-six percent (46%) and forty-two percent (42%), respectively. All other types of revenue make up the remaining twelve percent (12%) of total revenues.

Exhibit 1



The operating expenses by function are shown in Exhibit 2.

Exhibit 2



Statement of Cash Flows

The final statement presented is the Statement of Cash Flows which presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash used by operating activities. The second section reflects cash flows from noncapital financing activities. Noncapital financing activities include the cash received and spent for non-operating, non-investing, and other noncapital financing purposes. The third section deals with cash used from capital and related financing activities. Capital and related activities are those in which cash is used for the acquisition and construction of capital assets and assets related to construction and renovation. The fourth section of the statement presents cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position to the net cash provided or used by operating activities. A condensed Statement of Cash Flows for the years ending September 30, 2021 and 2020 is presented below.

Condensed Statement of Cash Flows for the Year ended September 30,

	2021	2020	Increase (Decrease)	Percent Change
Cash Flows from (Used) in Operating Activities	$(8,860,026)	$(5,420,019)	$(3,440,007)	(63.4)
Cash Flows from Non-Capital Financing Activities	11,910,418	8,571,241	3,339,177	38.9
Cash Flows from (Used) in Capital and Related Financing Activities	(2,372,217)	(1,351,661)	(1,020,556)	(75.5)
Cash Flows from Investing Activities	2,259	13,246	(10,987)	(82.9)
Net Increase (Decrease) in Cash	$680,434	$1,812,807	$(1,132,373)	(62.5)

Economic Outlook

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the upcoming fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. The College's overall financial position remains stable.

The College anticipates the upcoming fiscal year will be similar to the last and will continue a close watch over resources to maintain the College's ability to react to unknown internal and external issues. The College will focus its resources on its mission to continue progress towards accomplishing strategic goals.

Basic Financial Statements

Statement of Net Position
September 30, 2021

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 7,276,670.33
Accounts Receivable, Net	1,431,011.36
Inventories	11,931.57
Prepaid Expenses	163,565.96
Total Current Assets	8,883,179.22
Noncurrent Assets	
Capital Assets:	
Land	172,921.49
Improvements Other Than Buildings	1,155,309.10
Buildings and Alterations	11,017,271.36
Equipment and Furniture	4,827,285.41
Library Holdings	662,698.22
Construction in Progress	189,415.62
Less: Accumulated Depreciation	(8,926,975.63)
Total Capital Assets, Net of Depreciation	9,097,925.57
Total Noncurrent Assets	9,097,925.57
Total Assets	17,981,104.79
Deferred Outflow of Resources	
Loss on Refunding	10,832.90
Pension	2,209,802.43
Other Postemployment Benefit (OPEB)	1,269,997.50
Total Deferred Outflow of Resources	$ 3,490,632.83

The accompanying Notes to the Financial Statements are an integral part of this statement.

LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	$ 321,458.87
Bond Surety Fee Payable	2,932.08
Deposit Liabilities	108,903.05
Unearned Revenue	1,079,751.12
Bonds Payable	225,000.33
Compensated Absences	31,326.40
Total Current Liabilities	1,769,371.85
Noncurrent Liabilities	
Compensated Absences	304,862.62
Bonds Payable	224,000.00
Net Pension Liability	8,042,000.00
Other Postemployment Benefit (OPEB) Liability	3,160,822.00
Total Noncurrent Liabilities	11,731,684.62
Total Liabilities	13,501,056.47
Deferred Inflow of Resources	
Pension	825,000.00
Other Postemployment Benefit (OPEB)	2,588,224.00
Total Deferred Inflow of Resources	3,413,224.00
NET POSITION	
Net Investment in Capital Assets	8,648,925.24
Unrestricted	(4,091,468.09)
Total Net Position	$ 4,557,457.15

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Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2021

OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of $1,738,103.78)	$ 1,162,688.33
Sales and Services of Educational Activities	38,305.97
Federal Grants and Contracts	2,278,489.61
State Grants and Contracts	612,136.88
Nongovernmental Grants and Contracts	8,851.16
Auxiliary Enterprises:	
Bookstore	54,909.95
Vending	910.91
Other Operating Revenue	45,022.25
Total Operating Revenues	4,201,315.06
OPERATING EXPENSES	
Instruction	3,543,887.72
Academic Support	1,029,635.27
Student Services	1,267,795.02
Institutional Support	2,924,524.42
Operation and Maintenance	1,631,336.26
Scholarships and Financial Aid	1,438,958.90
Auxiliary Enterprises	19,637.50
Depreciation	728,583.35
Total Operating Expenses	12,584,358.44
Operating Income (Loss)	(8,383,043.38)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	5,739,992.00
State Appropriations-Special	99,993.00
State Appropriations-Other	975,146.56
Federal Grants	5,105,127.00
Investment Income	2,258.56
Gifts	65,010.00
Interest on Indebtedness	(14,032.86)
Bond Surety Fee Expense	(15,386.84)
Bond Amortization Expense	(5,416.45)
Net Nonoperating Revenues	11,952,690.97
Changes in Net Position	3,569,647.59
Total Net Position - Beginning of Year, as Restated (See Note 11)	987,809.56
Total Net Position - End of Year	$ 4,557,457.15

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended September 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 1,014,798.24
Grants and Contracts	2,331,942.30
Sales and Services of Educational Activities	38,305.97
Other Receipts (Payments)	45,022.25
Payments for Benefits	(1,648,651.20)
Payments to Suppliers	(3,876,318.00)
Payments to Employees	(5,109,550.34)
Payments to Utilities	(276,975.51)
Payments for Scholarships	(1,438,958.90)
Auxiliary Enterprises	60,359.36
Net Cash Provided (Used) by Operating Activities	(8,860,025.83)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	6,815,131.56
Federal Grants	5,105,127.00
Bond Surety Fee Expense	(9,850.40)
Gifts and Grants Received for Other Than Capital Purposes	10.00
Net Cash Provided (Used) by Noncapital Financing Activities	11,910,418.16
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(2,146,512.50)
Principal Paid on Capital Debt	(213,671.95)
Interest Paid on Capital Debt	(12,032.53)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,372,216.98)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	2,258.56
Net Cash Provided (Used) by Investing Activities	2,258.56
Net Increase (Decrease) in Cash and Cash Equivalents	680,433.91
Cash and Cash Equivalents - Beginning of Year	6,596,236.42
Cash and Cash Equivalents - End of Year	$ 7,276,670.33

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$	(8,383,043.38)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		728,583.35
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables, Net		(175,279.56)
(Increase)/Decrease in Prepaids		(26,919.79)
(Increase)/Decrease in Inventories		17,220.26
(Increase)/Decrease in Deferred Outflows		(2,136,225.34)
Increase/(Decrease) in Pension Liability		1,596,000.00
Increase/(Decrease) in OPEB Liability		1,148,805.00
Increase/(Decrease) in Deferred Inflow		(1,001,586.00)
Increase/(Decrease) in Accounts Payable		(157,472.58)
Increase/(Decrease) in Unearned Revenue		(534,137.50)
Increase/(Decrease) in Compensated Absences		43,118.30
(Increase)/Decrease in Deposits Held for Others		20,911.41
Net Cash Provided (Used) by Operating Activities	$	(8,860,025.83)

Note 1 – Summary of Significant Accounting Policies

The financial statements of J. F. Drake State Community and Technical College (the "College") are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the College are described below.

A. Reporting Entity

The College is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, "The Financial Reporting Entity," states that a primary government is financially accountable for a component unit if it appoints a voting majority of an organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama which through the Alabama Community College System Board of Trustees governs the Alabama Community College System. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision and regulation of the College. In addition, the College receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the College is considered for financial reporting purposes to be a component unit of the State of Alabama.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the College to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted net position are available.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the College's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the College to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are reported at fair value based on quoted market prices.

2. Receivables

Accounts receivable relate to amounts due from federal grants, state grants, third party tuition and auxiliary enterprise sales. The receivables are shown net of allowance for doubtful accounts.

3. Capital Assets

Capital assets, other than intangibles, with a unit cost of over $5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is $1 million and $100,000 for easements and land use rights and patents, trademarks and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition cost (an entry price). Land, Construction in Progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings	Straight-Line	50 years
Building Alterations	Straight-Line	25 years
Improvements Other Than Buildings	Straight-Line	25 years
Equipment	Straight-Line	5 – 10 years
Library Materials	Composite	20 years
Capitalized Software	Straight-Line	10 years
Internally Generated Computer Software	Straight-Line	10 years
Easement and Land Use Rights	Straight-Line	20 years
Patents, Trademarks, and Copyrights	Straight-Line	20 years

4. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the bonds.

6. Compensated Absences

No liability is recorded for sick leave. Substantially, all employees of the College earn 12 days of sick leave each year with unlimited accumulation. Payment is not made to employees for unpaid sick leave at termination or retirement.

All non-instructional employees earn annual leave at a rate which varies from 12 to 24 days per year depending on duration of employment, with accumulation limited to 60 days. Instructional employees do not earn annual leave. Payment is made to employees for unused leave at termination or retirement.

7. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

8. Unearned Tuition and Fee Revenue

Tuition and fee revenues received for Fall Term but related to the portion of the term that occurs in the subsequent fiscal year have been disclosed as unearned revenue.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

10. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

11. Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ***Net Investment in Capital Assets*** – Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.

- ***Restricted:***

  - ✓ ***Nonexpendable*** **–** Net position subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.

  - ✓ ***Expendable*** **–** Net position whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

- ***Unrestricted*** **–** Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Board of Trustees.

12. Federal Financial Assistance Programs

The College participates in various federal programs. Federal programs are audited in accordance with the Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*).

13. Scholarship Allowances and Student Aid

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the College and the amount that is paid by the student and/or third parties making payments on behalf of the student. The College uses the case-by-case method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report 2000-05 to determine the amount of scholarship allowances and discounts.

Note 2 – Deposits

Cash and Cash Equivalents

The College's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

Note 3 – Receivables

Receivables are reported net of uncollectible amounts and are summarized as follows:

Accounts Receivable:	
Federal	$ 910,271.30
State	231,349.40
Third Party	109,323.54
Auxiliary	75,588.10
Student	729,531.99
Agency	1,330.43
Returned Checks	636.00
Less: Allowance for Doubtful Accounts	(627,019.40)
Total Accounts Receivable, Net	$1,431,011.36

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Deductions	Adjustments/ Reclassifications	Ending Balance
Land	$ 2,375.05	$ 170,546.44	$	$	$ 172,921.49
Buildings	10,586,196.40			(1,938,728.18)	8,647,468.22
Building Alterations		431,074.96		1,938,728.18	2,369,803.14
Improvements Other Than Buildings	958,791.15	196,517.95			1,155,309.10
Equipment >$25,000	2,065,531.49	289,339.18			2,354,870.67
Equipment < $25,000	1,543,021.34	929,393.40			2,472,414.74
Library Holdings	735,684.07	5,224.95	78,210.80		662,698.22
Construction in Progress		189,415.62			189,415.62
Total	15,891,599.50	2,211,512.50	78,210.80		18,024,901.20
Less: Accumulated Depreciation:					
Buildings	4,588,047.98	212,376.21			4,800,424.19
Improvements Other Than Buildings	782,975.44	23,628.61			806,604.05
Equipment >$25,000	1,222,920.14	175,877.04			1,398,797.18
Equipment < $25,000	1,276,167.36	281,617.86			1,557,785.22
Library Holdings	406,492.16	35,083.63	78,210.80		363,364.99
Total Accumulated Depreciation	8,276,603.08	728,583.35	78,210.80		8,926,975.63
Capital Assets, Net	$ 7,614,996.42	$1,482,929.15	$	$	$ 9,097,925.57

Note 5 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The ***Code of Alabama 1975***, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Tier 1 covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, Tier 1 covered members of the TRS were required by statute to contribute 7.50% of earnable compensation. Tier 1 certified law enforcement, correctional officers and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, Tier 1 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2021, was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the College was $564,802.43 for the year ended September 30, 2021.

D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2021, the College reported a liability of $8,042,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2019. The College's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2020, the College's proportion was 0.065017%, which was an increase of 0.006718% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the College recognized pension expense of $564,802.43. At September 30, 2021, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 398,000	$139,000
Changes of assumptions	84,000	
Net difference between projected and actual earnings on pension plan investments	597,000	
Changes in proportion and differences between employer contributions and proportionate share of contributions	566,000	686,000
Employer contributions subsequent to the measurement date	564,000	
Total	$2,209,000	$825,000

The $564,000.00 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2022	$ (4,000)
2023	$205,000
2024	$334,000
2025	$285,000
2026	$ 0
Thereafter	$ 0

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25 - 5.00%

(*) Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2019, valuation were based on the results of an actual experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates for TRS were based on the sex distinct RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity of the College's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the College's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
College's proportionate share of collective net pension liability	$10,730,000	$8,042,000	$5,768,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2020. The auditor's report dated April 23, 2021, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2020, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Annual Comprehensive Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the ***Code of Alabama 1975***, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The ***Code of Alabama 1975***, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of $1,250 per year for individual coverage and $1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

C. Contributions

The ***Code of Alabama 1975***, Section 16-25A-8, and the ***Code of Alabama 1975***, Section 16-25A-8.1, provide the PEEHIB with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIB is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2021, the College reported a liability of $3,160,822.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. The College's proportion of the collective net OPEB liability was based on a projection of the College's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2020, the College's proportion was 0.048704%, which was a decrease of 0.004626% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the College recognized OPEB expense of $(312,589.00) with no special funding situations. At September 30, 2021, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 80,156	$1,136,391
Changes of assumptions	1,104,050	586,936
Net difference between projected and actual earnings on OPEB plan investments		133
Changes in proportion and differences between employer contributions and proportionate share of contributions		864,613
Employer contributions subsequent to the measurement date	85,792	
Total	$1,269,998	$2,588,073

The $85,792 reported as deferred outflows of resources related to OPEB resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2022	$(475,657)
2023	$(470,842)
2024	$(328,290)
2025	$(272,821)
2026	$ 68,357
Thereafter	$ 75,386

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	2.25%
Municipal Bond Index Rate at the Prior Measurement Date	3.00%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2040
Single Equivalent Interest Rate at the Measurement Date	3.05%
Single Equivalent Interest Rate at the Prior Measurement Date	5.50%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024

(1) Includes 3.00% wage inflation.
(2) Compounded annually, net of investment expense, and includes inflation.
(**) Initial Medicare claims are set based on scheduled increases through plan year 2022.

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the actuarial valuation as of September 30, 2019.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

(*) Geometric mean, includes 2.5% inflation.

F. Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2020, was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 14.802% of the employer contributions were used to assist in funding retiree benefit payments in 2020, and it is assumed that the amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2118. The long-term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.

G. Sensitivity of the College's Proportionate Share of the Collective Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following table presents the College's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% Decreasing to 3.75% for Pre-Medicare and Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare and Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare and Known Decreasing to 5.75% for Medicare Eligible)
College's proportionate share of collective net OPEB liability	$2,498,640	$3,160,822	$4,022,758

H. Sensitivity of the College's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 3.05%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.05%)	Current Discount Rate (3.05%)	1% Increase (4.05%)
College's proportionate share of collective net OPEB liability	$3,876,912	$3,160,822	$2,592,091

I. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2020. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Significant Commitments

As of September 30, 2021, the College had been awarded approximately $16,729,993.41 in federal contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

Note 8 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2021, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	$169,190.81
Bookstore Payable	131.56
Supplies/Other	152,136.50
Total	$321,458.87

Note 9 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue Bonds – Direct Placement	$663,000.00	$	$216,000.00	$447,000.00	$223,000.00
Compensated Absences	293,070.72	43,118.30		336,189.02	31,326.40
Total Long-Term Liabilities	$956,070.72	$43,118.30	$216,000.00	$783,189.02	$254,326.40

The Revenue Bonds were issued in December 2015 by the Board of Trustees to finance the costs of refunding the Board's J. F. Drake State Technical College Revenue Bonds, Series 2003.

Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds.

Principal and interest maturity requirements on bond debt are as follows:

Fiscal Year	Principal Payments	Interest Payments	Totals
2021-2022	$223,000.00	$ 8,001.30	$231,001.30
2022-2023	224,000.00	4,009.60	228,009.60
Totals	$447,000.00	$12,010.90	$459,010.90

Pledged Revenues

The College has pledged student tuition and fee revenue to repay the $1,712,000 in Revenue Bond Series 2015 issued in December 2015, for the purpose of providing funds to refund the Revenue Bonds, Series 2003. Future revenues in the approximate amount of $459,010.90 are pledged to repay principal and interest. During the 2021 fiscal year, pledged tuition and fee revenue in the amount of $2,341,668.48 were received with $231,001.30 or 9.86% of pledged revenues, being used to pay principal and interest. These bonds are scheduled to mature in fiscal year 2023.

The College's outstanding 2015 bonds from direct placement related to governmental activities contain a provision that in an event of default, the Bondholder shall have the right by mandamus or other lawful remedy in any court of competent jurisdiction to enforce his or its rights against the Issuer to fix and collect the Pledged Revenues, in amounts sufficient to meet the provisions of the Bond Resolution and carry out any other covenants contained in the resolution and to perform its duties under the resolution and Section 16-3-28, ***Code of Alabama 1975***, as amended.

Note 10 – Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The College pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to $2 million per occurrence and is self-insured up to a maximum of $6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed $6 million. The College purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the College has fidelity bonds on the College’s President, Executive Director of Fiscal Affairs & Administrative Services, and Financial Aid Officer as well as on all other College personnel who handle funds.

Employee health insurance is provided through the Public Education Employees’ Health Insurance Fund (PEEHIF) administered by the Public Education Employees’ Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan’s actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The College contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee’s premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the College's coverage in any of the past three fiscal years.

Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the College.

Note 11 – Net Position Restatement

Prior period adjustments have been made as outlined below:

Net Position September 30, 2020	$956,031.59
To Correct Legacy Accounts Receivable	33,727.45
To Correct Fiscal Year 2020 State Unemployment Insurance Expense	(14,625.43)
To Correct Fiscal Year 2020 Overstatement of Supplies/Other and Third Party Accounts Receivable	9,195.17
To Correct Accounts Payable for Bookstore Charges Previously Paid	6,955.74
To Reallocate Unused Portion of Veteran's Administration Allowance to Unearned Revenue	(3,474.96)
Total Prior Period Adjustments	31,777.97
Net Position October 1, 2020, as Restated	$987,809.56

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Required Supplementary Information

Schedule of the College's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015
College's proportion of the collective net pension liability	0.065017%	0.058299%	0.062776%	0.069142%	0.071344%	0.078133%	0.076619%
College's proportionate share of the collective net pension liability	$ 8,042	$ 6,446	$ 6,242	$ 6,796	$ 7,951	$ 8,177	$ 6,961
College's covered payroll during the measurement period (*)	$ 4,634	$ 4,157	$ 4,167	$ 4,582	$ 4,692	$ 4,961	$ 4,884
College's proportionate share of the collective net pension liability as a percentage of its covered payroll	173.54%	155.06%	149.80%	148.32%	169.46%	164.83%	142.53%
Plan fiduciary net position as a percentage of the total collective pension liability	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2021, the measurement period for covered payroll is October 1, 2019 through September 30, 2020.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the College's Contributions - Pension
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 564	$ 562	$ 507	$ 506	$ 541	$ 552	$ 558
Contributions in relation to the contractually required contribution	$ 564	$ 562	$ 507	$ 506	$ 541	$ 552	$ 558
Contribution deficiency (excess)	$	$	$	$	$	$	$
College's covered payroll	$ 4,721	$ 4,634	$ 4,157	$ 4,167	$ 4,582	$ 4,692	$ 4,961
Contributions as a percentage of covered payroll	11.95%	12.13%	12.20%	12.14%	11.81%	11.76%	11.25%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2021, the covered payroll is for the reporting fiscal year October 1, 2020 through September 30, 2021.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the College's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018
College's proportion of the collective net OPEB liability	0.048704%	0.053330%	0.055455%	0.059800%
College's proportionate share of the collective net OPEB liability (asset)	$ 3,161	$ 2,012	$ 4,558	$ 4,442
College's covered-employee payroll during the measurement period (*)	$ 4,124	$ 4,051	$ 4,269	$ 4,617
College's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	76.65%	49.67%	106.77%	96.21%
Plan fiduciary net position as a percentage of the total collective OPEB liability	19.80%	28.14%	14.81%	15.37%

(*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan.
The covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2021 year is October 1, 2019 through September 30, 2020.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the College's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018
Contractually required contribution	$ 86	$ 88	$ 151	$ 134
Contributions in relation to the contractually required contribution	$ 86	$ 88	$ 151	$ 134
Contribution deficiency (excess)	$	$	$	$
College's covered-employee payroll	$ 4,437	$ 4,124	$ 4,051	$ 4,269
Contributions as a percentage of covered-employee payroll	1.94%	2.13%	3.73%	3.14%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

Recent Plan Changes

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2020, is determined based on the actuarial valuation as of September 30, 2017. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	24 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible (*)	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

(*) Initial Medicare claims are set based on scheduled increases through plan year 2019.

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Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
Student Financial Assistance Cluster				
U. S. Department of Education				
Direct Programs				
Federal Supplemental Educational Opportunity Grants	84.007			$ 45,212.00
Federal Work-Study Program	84.033			27,998.15
Federal Pell Grant Program	84.063			2,074,210.55
Total Student Financial Assistance Cluster				2,147,420.70
Research and Development Cluster				
U. S. Department of Education				
Direct Program				
Higher Education - Institutional Aid	84.031			1,563,037.67
National Aeronautics and Space Administration				
Direct Program				
Office of STEM Engagement (OSTEM)	43.008			220,707.86
Total Research and Development Cluster				1,783,745.53
WIOA Cluster				
U. S. Department of Labor				
Passed Through Alabama Department of Commerce				
WIOA Adult Program	17.258	N.A.		35,471.18
WIOA Youth Activities	17.259	1X100033		54,111.95
WIOA Dislocated Worker Formula Grants	17.278	N.A.		15,754.51
Total WIOA Cluster				105,337.64
Other Federal Awards				
U. S. Department of Education				
Direct Programs				
COVID-19 HEERF Student Aid Portion	84.425E			487,582.00
COVID-19 HEERF Institutional Portion	84.425F			695,328.99
COVID-19 HEERF Historically Black Colleges and Universities (HBCUs)	84.425J			1,543,577.15
Total Higher Education Emergency Relief Fund (HEERF)				2,726,488.14
Passed Through Alabama Community College System				
Adult Education - Basic Grants to States	84.002	0921AE110		119,696.52
Passed Through Alabama State Department of Education				
Career and Technical Education - Basic Grants to States	84.048	V048A200001		$ 66,965.00

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
National Science Foundation				
Direct Program				
Education and Human Resources	47.076			$ 48,624.46
U. S. Department of Treasury				
Passed Through State of Alabama Department of Finance				
COVID-19 Coronavirus Relief Fund	21.019	20GEERFHLTHDRK01		1,985.34
Passed Through Alabama Community College System				
COVID-19 Coronavirus Relief Fund	21.019	20GEERFDRK01		230,288.18
Total Coronavirus Relief Fund				232,273.52
Appalachian Regional Commission				
Direct Program				
Appalachian Area Development	23.002			177,348.00
Total Expenditures of Federal Awards				$ 7,407,899.51

N.A. = Not Available/Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of J. F. Drake State Community and Technical College, under programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of J. F. Drake State Community and Technical College, it is not intended to and does not present the financial position, changes in net position, or cash flows of J. F. Drake State Community and Technical College.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

J. F. Drake State Community and Technical College has elected not to use the 10-percent de minimis indirect cost rate allowed under the *Uniform Guidance*.

Additional Information

College Officials

October 1, 2020 through September 30, 2021

Officials	Position
Jimmy Baker	Chancellor Alabama Community College System
Dr. Patricia Sims	President
Akeem Alexander (Beginning 9/1/2021)	Executive Director of Fiscal Affairs & Administrative Services
Akeem Alexander (Until 8/31/2021)	Director of Fiscal Affairs

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of J. F. Drake State Community and Technical College, a component unit of the State of Alabama, as of and for the year ended September 30, 2021, and related notes to the financial statements, which collectively comprise J. F. Drake State Community and Technical College's basic financial statements and have issued our report thereon dated June 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered J. F. Drake State Community and Technical College's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control. Accordingly, we do not express an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether J. F. Drake State Community and Technical College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 10, 2022

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

Report on Compliance for Each Major Federal Program

We have audited J. F. Drake State Community and Technical College's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of J. F. Drake State Community and Technical College's major federal programs for the year ended September 30, 2021. J. F. Drake State Community and Technical College's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with each of J. F. Drake State Community and Technical College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about J. F. Drake State Community and Technical College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of J. F. Drake State Community and Technical College's compliance.

Opinion on Each Major Federal Program

In our opinion, J. F. Drake State Community and Technical College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of J. F. Drake State Community and Technical College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered J. F. Drake State Community and Technical College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 10, 2022

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Section I – Summary of Examiner's Results

Financial Statements

Type of report the auditor issued on whether the audited financial statements were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiency(ies) identified?	______ Yes	__X__ None reported
Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	______ Yes	__X__ No
Significant deficiency(ies) identified?	______ Yes	__X__ None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*?	______ Yes	__X__ No

Section I – Summary of Examiner's Results

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
	Research and Development Cluster
84.031	Higher Education – Institutional Aid
43.008	Office of STEM Engagement (OSTEM)
	COVID-19 Higher Education Emergency Relief Fund (HEERF)
84.425E	COVID-19 HEERF Student Aid Portion
84.425F	COVID-19 HEERF Institutional Portion
84.425J	COVID-19 HEERF Historically Black Colleges and Universities (HBCUs)
21.019	COVID-19 Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: $750,000.00

Auditee qualified as low-risk auditee? ______ Yes __X__ No

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.

Summary Schedule of Prior Audit Findings

J.F. DRAKE STATE COMMUNITY AND TECHNICAL COLLEGE
3421 MERIDIAN STREET, NORTH • HUNTSVILLE, AL 35811
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OFFICE OF THE PRESIDENT

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2021

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the J.F. Drake State Community and Technical College has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2021.

Finding Ref. No.	Status of Prior Audit Finding
2020-001	Title 2 U.S. ***Code of Federal Regulations*** (CFR) Part 200, codifies the ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** *(Uniform Guidance).* Section 200.320 describes the methods of procurement to be followed. This guidance includes procedures for small purchases. Small purchases are purchases higher than the micro-purchase threshold but not exceeding the simplified acquisition threshold. During the 2020 fiscal year the thresholds were \$10,000 and \$250,000, respectively. When small purchase procedures are used, price or rate quotations should be obtained from an adequate number of sources. However, Section 200.318(a) stated, "The Non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part." The ***Code of Alabama 1975,*** Section 41-16-50(a) states, "With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more, and the lease of materials, equipment, supplies, or other personal property where the lessee is, or becomes legally and contractually, bound under the terms of the lease, to pay a total amount of fifteen thousand dollars (\$15,000) or more…shall be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder…" Since the College must also comply with state law, small purchase procedures can only be used for purchases between the micro-purchase threshold (\$10,000) and the threshold set by the Alabama Competitive Bid Law (\$15,000). 2 CFR Section 200.320(f) stated, "Procurement by non-competitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply: (1) The item is available only from a single source; (2) The public exigency or emergency for the requirement will not permit a delay resulting from

publicizing a competitive solicitation; (3) The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or (4) After solicitation of a number of sources, competition is determined inadequate."

Section 200.318(i) stated, "The Non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Due to a lack of properly implemented internal controls and staff having limited knowledge of the *Uniform Guidance* requirements, the College awarded three contracts, between the amounts of $10,000 and $15,000, during the fiscal year without obtaining price or rate quotations from an adequate amount of sources. In addition, if these purchases qualified for a non-competitive award, the procurement history was not documented. These purchases totaled $33,135.00.

Corrective action was taken.

Patricia G. Sims, Ed.D.
President